

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-24-S - ORDER NO. 2011-617
SEPTEMBER 14, 2011

IN RE: Application of Palmetto Utilities,)	ORDER APPROVING
Incorporated for Adjustment of Rates and)	RATES AND CHARGES
Charges)	AND SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (hereinafter the "Commission") on the Application of Palmetto Utilities, Incorporated ("Palmetto" or "the Company") for an adjustment of its rates and charges, and the subsequent Settlement Agreement ("Agreement") filed by the Company and the Office of Regulatory Staff ("ORS") (together "Parties").

On January 14, 2011, Palmetto filed with the Commission written notice of its intent to seek an adjustment in rates in accordance with S.C. Code Ann. §58-5-240(A) (Supp. 2010). This matter was initiated on March 15, 2011, when Palmetto filed with this Commission an Application for the adjustment of rates and charges for its provision of sewer service to approximately 12,000 residential and 330 commercial account customers in Palmetto's service territory in Richland and Kershaw Counties, South Carolina. See S.C. Code Ann. §58-5-210 (Supp. 2010). By its Application, the Company sought approval of an increase in its rates from a flat rate of \$29.50 per month

to a rate of \$38.50 per month for residential customers and per single-family equivalent (“SFE”) for commercial customers.

By letter dated March 22, 2011, the Commission’s Clerk’s Office instructed the Company to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by the Company’s Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion as a party of record. In the same letter, the Commission also instructed the Company to notify directly, by U. S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. Palmetto furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published in a newspaper of general circulation in the area affected by the Company’s Application. The Company also provided the Commission with a letter in which the Company certified that it had complied with the instruction of the Commission’s Clerk’s Office to mail a copy of the Notice of Filing to all customers affected by the Application.

No Petitions to Intervene were filed in this case in response to the Notice of Filing. Pursuant to S.C. Code Ann. Section 58-4-10(B) (Supp. 2010), ORS is a party of record in this proceeding.

As a result of settlement negotiations, the Parties reached a Settlement Agreement.

A public hearing was held before the Commission on July 27, 2011, at the Commission's offices located at 101 Executive Center Drive, Columbia, South Carolina. John Hoefer, Esquire, of the law firm Willoughby & Hoefer, P.A., appeared on behalf of Palmetto. ORS was represented by Jeffrey M. Nelson, Esquire. At this hearing, the parties offered into the record the Agreement and thereby stipulated to the pre-filed direct and settlement testimonies and exhibits of Company witness R. Stanley Jones, and ORS witness Hannah Majewski. In addition, the pre-filed direct testimony and exhibits of ORS witness Christina Stutz were also stipulated to under the Agreement. At hearing, the pre-filed direct testimony and exhibits of Company witness, Fred W. Melcher, III, were also entered into the record. Ms. Dawn Hipp, Director of the ORS Telecommunications, Transportation and Water/Wastewater Department, adopted from the witness stand Ms. Majewski's direct and settlement testimony in support of the Settlement Agreement. In addition to the stipulated testimonies and exhibits, each witness was sworn and subjected to examination by the Commission.

The Parties have asserted that the Agreement and its exhibits provide a schedule of proposed rates, terms, and conditions of service that are just and reasonable to both the Company and its customers.

In the Agreement, the Parties propose that a flat rate of \$33.00 per month for residential customers and per SFE for commercial customers be implemented. ORS witness Hipp testified that the proposed settlement rate would give Palmetto an opportunity to earn total operating revenues of \$6,490,464 with an operating margin of 14.86%. The adjusted operating expenses totaled \$5,494,774 with a net income of

\$995,690 based on the proposed settlement rate. The parties to the Settlement Agreement then subtracted interest expense of \$55,887 and added customer growth of \$24,378 to arrive at Net Income for Operating Margin of \$964,181. Mrs. Hipp also testified that Palmetto is in compliance with DHEC regulations and requested that, based on a bond value requirement of \$5,122,423, the Commission order Palmetto to maintain its current Performance Bond of \$350,000.

Company witness Jones testified that, since January 2010, he has been employed as South Carolina Regional President of Ni America Operating, LLC and in both that position, as well as his previous positions as President and Vice President of Palmetto Utilities, Inc., since 1982, he has been responsible for the capital improvements, repairs and maintenance and business development of Palmetto. Mr. Jones testified that, since 1988, the Company has experienced significant growth in its customer base and facilities and last requested a general rate increase in 1999. Since that time, the Company has added over eleven thousand customers and over twenty-four million dollars in capital improvements have been made to its system.

We find that the monthly service rate agreed to by the parties, which is specified in the Agreement, and which is hereby adopted and attached to this Order as Order Exhibit No. 1, is just and reasonable, and that it allows Palmetto to provide its customers with adequate sewer service.

The Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable. The agreed upon rates and charges and terms and conditions are hereby approved and are set forth as an exhibit to the Settlement Agreement (Order

Exhibit No. 1). We agree, and hereby find, that the rates and charges and terms and conditions contained in the Agreement are just and reasonable, are in the public interest, and are supported by the evidence of record.

After review and consideration by this Commission of the Agreement, the evidence contained in the record of this case and the testimony of the witnesses, the Commission concludes as a matter of law that the Agreement results in just and reasonable rates and fees and terms and conditions for the provision of sewer service by the Company.

Based on the operating revenues, income, and expenses agreed upon by the parties, the resulting allowable operating margin for the Company is 14.86%. See S.C. Code Ann. § 58-5-240 (H).

IT IS THEREFORE ORDERED THAT:

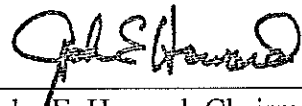
1. The Agreement, including attachments, is attached hereto as Order Exhibit No. 1 and is incorporated into and made a part of this Order by reference.
2. The proposed rates contained in the Agreement have been entered into the record of this case without objection. We find that the schedule of rates and charges and terms and conditions referred to above is both just and reasonable and will allow the Company to provide its customers with adequate sewer services.
3. The schedule of rates and charges attached hereto is approved for service rendered after the issuance of this Order.
4. An operating margin of 14.86% is approved for Palmetto.

5. Palmetto shall continue to file with ORS all necessary documents, reports and other instruments as required by applicable South Carolina statutes and regulations for the operation of its sewer system in Richland and Kershaw Counties.

6. Palmetto shall maintain a Performance Bond in the amount of \$350,000 that satisfies the criteria as set forth in S.C. Code Ann. § 58-5-720 (Supp. 2010).

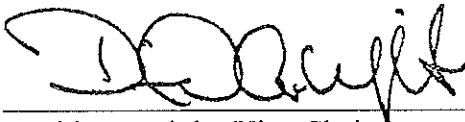
7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2011-24-S

July 19, 2011

IN RE:)	
Application of Palmetto Utilities, Incorporated)	
for Adjustment of Rates and Charges for, and)	SETTLEMENT AGREEMENT
modifications to certain terms and conditions)	
related to, the provision of sewer service)	

This Settlement Agreement is made by and between Palmetto Utilities, Inc. ("Palmetto" or "the Company") and the South Carolina Office of Regulatory Staff ("ORS"), (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on March 15, 2011, Palmetto filed an Application for the Adjustment of Rates and Charges ("Application") for, and Modification to certain Terms and Conditions related to, the Provision of Sewer Services in Palmetto's service areas in Richland and Kershaw Counties with the Public Service Commission of South Carolina ("Commission") which included a proposed rate schedule;

WHEREAS, the above-captioned proceeding has been established by the Commission pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2010) and 26 S.C. Code Ann. Regs. 103-712.4.B (2010);

WHEREAS, Palmetto provides sewer service to approximately 12,000 residential and 330 commercial account customers in Richland and Kershaw Counties, South Carolina;

WHEREAS, ORS has examined the books and records of the Company relative to the issues raised in the Application and has conducted financial, business, and site inspections of Palmetto and its wastewater collection and treatment facilities;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket and there are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions, to determine whether a settlement of this proceeding would be in their best interests as well as those of the using and consuming public;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and charges for sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to obtain a reasonable operating margin.

1. The Parties stipulate and agree to a flat rate of \$33.00 per month for residential sewer service, and \$33.00 per month for each single-family equivalent ("SFE") for Commercial customers. The Parties also stipulate and agree to the proposed modifications to certain rate schedule language as set forth in the Application. All other rates and charges and rate schedule language will remain the same as heretofore approved by the Commission in Order No. 2001-119, Docket Number 98-653-S, December 14, 2001. A copy of the agreed upon rate schedule is contained in Settlement Exhibit HKM-2 to the Settlement Testimony of Hannah K. Majewski (attached hereto as Exhibit 1).

2. The Parties agree that a rate of \$33.00 per month represents an increase of \$3.50 per month from the current rate of \$29.50 per month and is fair, just, and reasonable to customers

of the Company's system while also providing Palmetto with the opportunity to recover the revenue required to earn a fair operating margin.

3. The Parties agree that ORS shall have access to all books and records of this system and shall perform an examination of these books as necessary.

4. Palmetto agrees to keep its books and records according to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts as required by the Commission's rules and regulations.

5. Palmetto agrees to file all necessary documents, bonds, reports and other instruments as required by applicable South Carolina statutes and regulations for the operation of a sewer system.

6. Palmetto agrees that this system is a "public utility" subject to the jurisdiction of the Commission as provided in S.C. Code Ann. §58-5-10(4) (Supp. 2010). The Company agrees to maintain its current bonding amount of \$350,000 in satisfaction of the bond requirements set forth in S.C. Code Ann. §58-5-720 (Supp. 2010).

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission Order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree to stipulate into the record the pre-filed direct and settlement testimonies of R. Stanley Jones on behalf of Palmetto (attached hereto as Exhibit 2) and the pre-filed direct testimony and Audit Settlement Exhibits CAS-1 through CAS-4 of Christina Stutz

(attached hereto as Exhibit 3) and the pre-filed direct and settlement testimony of Hannah K. Majewski (Exhibit 1) on behalf of ORS in support of this Settlement Agreement

9. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2010). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

10. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future Commission proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

11. This Settlement Agreement shall be interpreted according to South Carolina law.

12. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below.

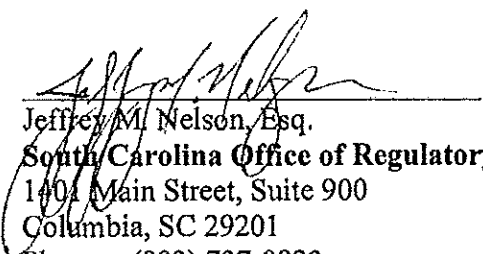
Counsel's signature represents his or her representation that his or her client has authorized the execution of this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

13. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

[SIGNATURE PAGES TO FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff



Jeffrey M. Nelson, Esq.

South Carolina Office of Regulatory Staff

1404 Main Street, Suite 900

Columbia, SC 29201

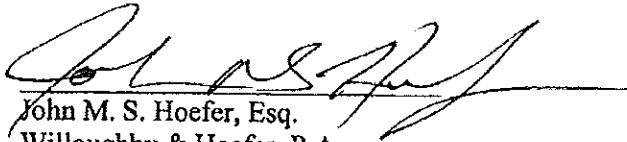
Phone: (803) 737-0823

Fax: (803) 737-0895

E-mail: jnelson@regstaff.sc.gov

WE AGREE:

Representing and binding Palmetto Utilities, Inc.



John M. S. Hoefer, Esq.
Willoughby & Hoefer, P.A.
P.O. Box 8416
Columbia, SC 29202-8416
Phone: (803) 252-3300
Fax: (803) 256-8062
Email: jhoefer@willoughbyhoefer.com

SETTLEMENT EXHIBIT 1

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY**

OF

HANNAH K. MAJEWSKI

JULY 19, 2011



DOCKET NO. 2011-24-S

**Application of Palmetto Utilities, Inc. for
Adjustment of Rates and Charges for,
and Modifications to Certain Terms and
Conditions Related to, the Provision of
Sewer Service**

SETTLEMENT TESTIMONY OF HANNAH K. MAJEWSKI

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2011-24-S

IN RE: APPLICATION OF PALMETTO UTILITIES, INC.

FOR ADJUSTMENT OF RATES AND CHARGES FOR, AND MODIFICATIONS

TO CERTAIN TERMS AND CONDITIONS RELATED TO, THE

PROVISION OF SEWER SERVICE

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Hannah Majewski, and my business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina Office of Regulatory Staff ("ORS") as the Program Specialist for the Water and Wastewater Department.

**Q. ARE YOU THE SAME HANNAH MAJEWSKI THAT PRESENTED
DIRECT TESTIMONY IN THIS CASE?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my settlement testimony is to provide a brief overview of the Settlement Agreement reached between ORS and Palmetto Utilities, Inc. ("PU").

THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201

1 **Q. PLEASE EXPLAIN SETTLEMENT EXHIBITS HKM-1 THROUGH 3.**

2 Settlement Exhibit HKM-1 summarizes PUI's service revenues using
3 PUI's current rates as approved by the Commission and proposed settlement rates
4 for each calculation. ORS made revenue adjustments totaling \$138,486 to PUI's
5 test year sewer service revenues. ORS imputed test year revenue based on
6 customer billing information provided in the original application and
7 supplemental customer data provided by PUI. ORS calculated PUI's test year
8 service revenue for residential and commercial sewer operations, as adjusted, of
9 \$5,539,453. ORS calculated PUI's proposed Settlement sewer service revenues,
10 as adjusted, of \$6,196,675. ORS did not factor customer growth into these
11 service revenue comparisons.

12 Settlement Exhibit HKM-2 is a summary of the Settlement Agreement
13 proposed rates for PUI.

14 Settlement Exhibit HKM-3 is a summary of the Settlement Agreement
15 Performance Bond requirement for PUI.

16 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT**
17 **AGREEMENT REACHED BY THE PARTIES OF RECORD.**

18 Following extensive discussions, the parties have each determined that
19 their interests, as well as the interest of the public would be best served by settling
20 all pending issues in this proceeding.

21 It is the position of ORS that the Settlement Agreement, as presented to
22 this Commission, is a fair, reasonable and full resolution to all issues in this

1 proceeding. Further, the Settlement Agreement represents the public interest as it
2 preserves the balance referred to in S.C. Code Ann. Section 58-4-10:

3 ... 'public interest' means a balancing of the following:
4

- 5 (1) Concerns of the using and consuming public with
6 respect to public utility services, regardless of the
7 class of customer;
8
9 (2) Economic development and job attraction and
10 retention in South Carolina; and
11
12 (3) Preservation of the financial integrity of the State's public utilities
13 and continued investment in and maintenance of utility facilities so
14 as to provide reliable and high quality utility services.
15

16 All parties agree that the proposed increase in rates and charges for
17 residential and commercial customers is fair and reasonable to both the customer
18 and PUI.

19 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

20 **A. Yes.**

Service Revenues Impact

Palmetto Utilities, Inc. Test Year Revenues at Current Rates

Service Type	Classification	Service Units	Fee per Unit	Test Year Calculated Revenues
SEWER	Residential	10,870.00	\$29.50	\$3,847,980
	TOTAL RESIDENTIAL SEWER SERVICE	10,870.00		\$3,847,980
	Multi-family Units-Apartments, Condominiums, Care Facilities, Etc.	1,626.54	\$29.50	\$575,795
	Food Service Oper. & Groceries	903.74	\$29.50	\$319,924
	Miscellaneous	1,680.51	\$29.50	\$594,901
	Schools	536.50	\$29.50	\$189,921
	Churches	30.88	\$29.50	\$10,932
	TOTAL COMMERCIAL SEWER SERVICE	4,778.17		\$1,691,473
TOTAL SEWER SERVICE REVENUE				\$5,539,453
Late Fees				\$49,672
Notification Fees				\$89,925
Customer Account Charge				\$18,540
Reconnect Fees				\$26,145
Returned Check Fees				\$4,371
Tap Fees (non-CIAC portion)				\$99,243
TOTAL OTHER REVENUE				\$287,896
TOTAL OPERATING REVENUE				\$5,827,349

Palmetto Utilities, Inc. Revenues at Settlement Rates

Service Type	Classification	Service Units	Fee per Unit	Test Year Settlement Revenues	Increased Amount	% Increase
SEWER	Residential	10,870.00	\$33.00	\$4,304,520	\$456,540	11.9%
	TOTAL RESIDENTIAL SEWER SERVICE	10,870.00		\$4,304,520	\$456,540	11.9%
	Multi-family Units-Apartments, Condominiums, Care Facilities, Etc.	1,626.54	\$33.00	\$644,110	\$68,315	11.9%
	Food Service Oper. & Groceries	903.74	\$33.00	\$357,881	\$37,957	11.9%
	Miscellaneous	1,680.51	\$33.00	\$665,482	\$70,581	11.9%
	Schools	536.50	\$33.00	\$212,454	\$22,533	11.9%
	Churches	30.88	\$33.00	\$12,228	\$1,296	11.9%
	TOTAL COMMERCIAL SEWER SERVICE	4,778.17		\$1,892,155	\$200,682	11.9%
TOTAL SEWER SERVICE REVENUE				\$6,196,675	\$657,222	11.9%
Late Fees				\$55,565	\$5,893	11.9%
Notification Fees				\$89,925	\$0	0.0%
Customer Account Charge				\$18,540	\$0	0.0%
Reconnect Fees				\$26,145	\$0	0.0%
Returned Check Fees				\$4,371	\$0	0.0%
Tap Fees (non-CIAC portion)				\$99,243	\$0	0.0%
TOTAL OTHER REVENUE				\$293,789	\$5,893	
TOTAL OPERATING REVENUE				\$6,490,464	\$663,115	11.4%

SEWER RATE SCHEDULE

1	<u>MONTHLY CHARGES</u>	Current		Settlement	
a.	Residential - Monthly charge per single-family house, condominium, villa or apartment unit	\$29.50		\$33.00	
b.	Commercial - Monthly charge per single-family equivalent	\$29.50		\$33.00	
c.	The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of \$33.00.				

Commercial customers are those not included in the residential category above and include, but not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility may, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2	<u>NONRECURRING CHARGES</u>	Current		Settlement	
a.	Sewer service connection charge per single-family equivalent	\$250.00		\$250.00	
b.	Plant Impact fee per single-family equivalent	\$800.00		\$800.00	
c.	The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.				

3 BULK TREATMENT SERVICES

The utility will provide bulk treatment services to Richland County ("County") upon request by the county. The rates for such bulk treatment services shall be as set forth above for both monthly charges and nonrecurring charges per single-family equivalent. The County shall certify to the Utility the number of units or taps (residential and commercial) which discharge wastewater into the County's collection system and shall provide all other information required by the Utility in order that the Utility may accurately determine the proper charges to be made to the County. The County shall insure that all commercial customers comply with the Utility's toxic and pretreatment effluent guidelines and refrain from discharging any toxic or hazardous materials or substances into the collection system. The County will maintain the authority to interrupt service immediately where customers violate the Utility's toxic or pretreatment effluent standards of discharge prohibited wastes into the sewer system. The Utility shall have the unfettered right to interrupt bulk service to the County if it determines that forbidden wastes are being or are about to be discharged into the Utility's sewer system.

The County shall pay for all costs of connecting its collection lines into the Utility's mains, installing a meter of quality acceptable to the Utility to measure flows, and constructing a sampling station according to the Utility's construction requirements.

4 NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Notification Fee: A fee of \$25.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
- b. Customer Account Charge: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service.
- c. Reconnection charges: In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

5 **BILLING CYCLE**

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

6 **LATE PAYMENT CHARGES**

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1½%) percent.

7 **TOXIC AND PRETREATMENT EFFLUENT GUIDELINES**

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §§ 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §§ 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

8 **CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

9 **EXTENSION OF UTILITY SERVICE LINES AND MAINS**

The utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and construction main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity

10 **CONTRACTS FOR MULTI-TAP CAPACITY**

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

11 SINGLE FAMILY EQUIVALENT

A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities—25 S.C. code Ann. Regs. 61-67 Appendix A (Supp. 2010), as may be amended from time to time. Where the Utility has reason to suspect that a person or entity is exceeding design loadings established by the Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an 'on premises' inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

**Palmetto Utilities, Inc.
2011-24-S**

Settlement Exhibit HKM-3

Performance Bond Requirement

Bond Value Components	Palmetto Utilities, Inc. - Wastewater		
	Application Per Books	After ORS's Proposed Accounting & Pro forma Adjustments	After Applicant's Proposed Increase Recalculated by ORS
Pumping Expenses	\$1,048,211	\$967,085	\$967,085
Treatment and Disposal Expenses	\$756,597	\$697,402	\$697,402
Customer Accounts Expenses	\$219,207	\$544,119	\$549,376
Administrative and General Expenses	\$1,479,989	\$1,553,217	\$1,553,217
Taxes Other Than Income Taxes	\$389,489	\$380,020	\$386,381
Income Taxes	\$312,643	\$663,877	\$913,075
Interest Expense	\$230,032	\$55,887	\$55,887
Bond Value Requirement	\$4,436,168	\$4,861,607	\$5,122,423
Current Performance Bond Structure (1)	Bond Value	Expiration Date	
Certificate of Deposit	\$350,000	12/10/11	
Total Financial Assurance	\$350,000		

(1) Letter of Credit secures performance bond of \$350,000 for wastewater operations.

SETTLEMENT EXHIBIT 2

SETTLEMENT EXHIBIT 2

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-24-S

IN RE:)
)
Application of Palmetto Utilities,)
Inc. for adjustment of rates and)
charges for, and modification to)
certain terms and conditions related)
to the provision of sewer service.)
_____)

DIRECT TESTIMONY OF R. STANLEY JONES, P.E.
ON BEHALF OF PALMETTO UTILITIES, INC.

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is R. Stanley Jones. My business address is 1710 Woodcreek Farms Road,
4 Elgin, South Carolina 29045.

5
6 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed as the South Carolina Regional President of Ni America Operating, LLC.
8 ("Ni America"). Ni America is owned by Ni America Capital Management, LLC, which
9 also owns Ni South Carolina Utilities, Inc., formerly known as Wateree Utilities Holding,
10 Inc., which is the sole shareholder of Palmetto Utilities, Inc.

1 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND YOUR TRAINING**
2 **AND WORK EXPERIENCE?**

3 A. I am a 1970 graduate of Clemson University with a Bachelor of Science degree in Civil
4 Engineering. I am a registered professional engineer and a registered land surveyor,
5 licensed to practice engineering and surveying by the South Carolina State Board of
6 Registration for Professional Engineers and Land Surveyors. I have over thirty-five years
7 of environmental engineering experience, including the design and operation of
8 wastewater treatment systems. I was first employed as an engineer by the Enwright
9 Associates engineering firm of Greenville in 1970. From 1975 through 1982, I was head
10 of its environmental engineering department. I left Enwright Associates in 1982 and
11 became employed as Vice President by Palmetto Utilities, then known as WildeWood
12 Utilities, Inc. I became President of WildeWood Utilities, Inc. in 1988. I currently serve
13 on the Environmental Planning Advisory Committee of the Central Midlands Council of
14 Governments, or "COG", which promulgates water quality management plans for
15 elimination of point source discharges under Sections 201 and 208(g) of the Federal
16 Clean Water Act and the National Pollutant Discharge Elimination System or "NPDES"
17 program authorized under Federal law. I have drafted facilities needs studies and other
18 planning documents required under Sections 201 and 208 of the Federal Clean Water Act
19 and have also taught water and wastewater treatment courses at Greenville Technical
20 College for several semesters.

21

1 **Q. WOULD YOU PLEASE DESCRIBE YOUR FORMER AND CURRENT ROLES**
2 **WITH PALMETTO UTILITIES?**

3 A. Yes. Prior to taking my current position with Ni America on January 7, 2010, my
4 responsibilities as President of Palmetto Utilities, Inc. included the day-to-day
5 management and oversight of the its wastewater collection and treatment operations,
6 provision of engineering services, and supervision of environmental compliance.
7 Additionally, I functioned as the business manager for the Company and was involved
8 with vendor and contractor relations and lender negotiation. I also oversaw Palmetto
9 Utilities' other seven employees. Effective January 7, 2010, I took my current position
10 with Ni America. In that position, I am responsible for overseeing all capital
11 improvements, repairs and maintenance, business development, and to a lesser degree
12 operations, for Palmetto Utilities. Indirectly, I continue to hold an equity interest in
13 Palmetto Utilities.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

16 A. The purpose of my testimony is to support the application for rate relief and provide the
17 Commission with an overview of Palmetto Utilities and its operations, its authorized
18 service area, an outline of the history of the company, a review of its performance from
19 an operational standpoint, a description of the facilities used and useful to the company
20 and some of the expenses incurred in providing sewer service, and an explanation of the
21 company's need for rate relief.

22

1 **Q. WHAT IS THE AUTHORIZED SERVICE AREA OF PALMETTO UTILITIES,**
2 **INC.?**

3 A. The present Commission authorized service area of the company encompasses
4 approximately ninety square miles and consists of unincorporated areas of northeastern
5 Richland County, the Town of Blythewood, and an adjoining area in southwestern
6 Kershaw County. In addition to ninety seven residential subdivisions, we serve a
7 commercial food distribution plant, twelve public school campuses, restaurants, and a
8 number of other commercial customers located in our authorized service area. Within
9 the residential developments proper, we serve not only the residential customers, but also
10 property owners associations, golf courses and clubhouses, and other amenity facilities.

11

12 **Q. HOW DID THE COMPANY COME TO ACQUIRE ITS CURRENTLY**
13 **AUTHORIZED SERVICE AREA?**

14 A. The establishment and expansion of our service area took place in stages. As the
15 Commission is aware, WildeWood Utilities, Inc. originally was authorized to serve the
16 WildeWood subdivision only. In the mid-1980's, our service area was condemned by the
17 East Richland County Public Service District. In 1987, Richland County agreed with us
18 that the company should undertake to provide service in the northeastern portion of the
19 county in areas which were not then served. In 1988, the company obtained authority
20 from the Commission to provide sewer service in northeastern Richland County and
21 southwestern Kershaw County and also constructed its wastewater treatment plant at
22 Bridgecreek. The company also acquired the Briarcliffe system from Briarcliffe

1 Associates in 1988 pursuant to Commission approval granted in 1987 and in 1994
2 acquired the Valhalla system from Valhalla Company, again after having received
3 Commission approval. With these two acquisitions, the company commenced serving
4 the Briarcliffe subdivision and the Valhalla subdivision, which is now known as the
5 Woodlands subdivision, in addition to various subdivisions in the originally authorized
6 northeastern Richland County and southwestern Kershaw County service area. In 1990
7 the company was designated by a Richland County Ordinance to be its agent for purposes
8 of discharging the county's function as the designated management agent under the
9 201/208 plan promulgated for the Wateree drainage basin by the COG. One goal of that
10 plan is the concentration of treatment functions in a single, regional facility. This is
11 achieved, in part, by eliminating multiple point source discharges created by smaller
12 systems. Pursuant to the 201-208 plan, the company retired the Bridgecreek and
13 Briarcliffe plants in 1994. In 1996, the company changed its name from WildeWood
14 Utilities, Inc. to Palmetto Utilities, Inc. in recognition of the fact that it no longer served
15 the WildeWood subdivision. The Valhalla wastewater treatment plant was taken out of
16 service in August 1999 at a significant cost to the Company. The flows from these three
17 plants have been diverted to the Spears Creek Regional Wastewater Treatment Plant
18 which has been constructed by Palmetto Utilities in the Wateree River drainage basin on
19 Spears Creek. An expansion to our service area was last approved by the Commission in
20 Order Number 2009-439, issued June 26, 2009, in Docket Number 2009-173-S. This
21 expansion added area in northeastern Richland County that includes part of the Broad

1 River drainage basin between U.S. Highway 321 and the Town of Blythewood and the
2 northeasternmost portion of Richland County to the Kershaw County line.

3

4 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY THE**
5 **COMPANY?**

6 A. The company last requested a general rate increase on December 9, 1999. By Order
7 Number 2000-0481 issued June 7, 2000, in Docket Number 98-653-S, the Commission
8 granted a portion of the relief requested and a greater increased monthly service rate was
9 thereafter placed into effect under bond. This monthly service rate became final on
10 December 14, 2001, pursuant to Order Number 2001-1119 and is the company's
11 currently authorized monthly service rate.

12

13 **Q. IS THE COMPANY PROVIDING WASTEWATER TREATMENT SERVICE TO**
14 **ITS CUSTOMERS IN CONFORMITY WITH ITS PERMITS FROM THE**
15 **SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL**
16 **CONTROL?**

17 A. Yes. As the letter attached to the Application as Exhibit "C" reflects, the company holds
18 all necessary permits from the Department of Health and Environmental Control, or
19 "DHEC", to operate the facilities. Since its last rate case, Palmetto Utilities has not been
20 cited by DHEC for any major infractions and has incurred no fines. The company is
21 committed to operating in an environmentally responsible manner. Rate relief is

1 necessary, however, to ensure our ability to recover the costs of environmental
2 compliance.

3

4

5 **Q. WHAT PERMITS DOES THE COMPANY HOLD FROM DHEC?**

6 A. The company is authorized to operate the Spears Creek Regional Wastewater Treatment
7 Plant using a non-discharge permit to apply treated wastewater to land. Palmetto Utilities
8 also holds an NPDES permit to discharge treated wastewater to surface waters. Each of
9 these permits authorize disposal of up to six million gallons per day of treated
10 wastewater; however, the NPDES permit authorizing a discharge of that volume of flow
11 into the Wateree River is not being used at this time. Instead, all flow from the treatment
12 plant is disposed of by way of land application under the non-discharge permit.

13

14 **Q. PLEASE DESCRIBE THE PLANT AND FACILITIES WHICH COMPRISE THE**
15 **SEWER SYSTEMS IN THE SERVICE AREA?**

16 A. The systems include the Spears Creek Regional Wastewater Treatment Plant, which
17 provides tertiary biological wastewater treatment, a series of gravity and force mains for
18 transportation, and collection lines. The treatment plant has a permitted capacity of six
19 million gallons per day. The transportation system features fifty five lift stations and the
20 force mains associated with them. With collection lines, Palmetto operates some three
21 hundred miles of mains and lines. The effluent is disposed of by way of rapid infiltration

1 in beds with multiple cells situated on two adjacent sites totaling one hundred forty acres
2 that are located in our service area.

3
4 **Q. SINCE THE LAST GENERAL RATE CASE, HAVE ANY UPGRADES AND/OR**
5 **IMPROVEMENTS BEEN MADE TO THE PLANT AND FACILITIES OF**
6 **PALMETTO UTILITIES, INC.?**

7 **A.** Yes. Since the last rate case, the Company has added over eleven thousand customers
8 and over twenty four million dollars in capital improvements. Palmetto has made over
9 six million dollars in upgrades to the Spears Creek Wastewater Treatment Plant alone,
10 which treats all of our customers' sewerage. To meet the needs of our customers,
11 Palmetto has also added two hundred twenty three miles of collection pipe, four thousand
12 one hundred ninety-six new manholes, forty five new lift stations and a corresponding
13 number of pumps, lift station control panels, security fencing, and privacy fencing near
14 customers' premises. Additionally, we have invested in monitoring and alarm equipment
15 designed to allow faster response times to wastewater overflows, which has been
16 installed at all fifty five of our lift stations. We have also installed ozone units in certain
17 of our lift stations as part of our ongoing odor control program to treat hydrogen sulfide
18 gas, or H₂S(g), that forms from sulfuric acid that occurs naturally when untreated
19 wastewater collects in lines, mains and lift stations.

1 **Q. WHAT HAS THE COMPANY'S EXPERIENCE BEEN WITH THE COSTS OF**
2 **OPERATION SINCE ITS LAST RATE INCREASE?**

3 A. Our expenses have increased. As one might expect, the passage of time since the
4 company's last rate case alone has resulted in increases in the prices for goods and
5 services the company must purchase to operate. Furthermore, the addition of eleven
6 thousand customers and the plant needed to serve them since the last rate case has caused
7 the company to incur increased variable operational expenses such as purchased power,
8 sludge disposal, salaries and third party operating costs, chemicals and the like. And,
9 other expenses, such as taxes, license fees and assessments have also risen.

10

11 **Q. YOU MENTIONED THAT SALARIES AND THIRD PARTY OPERATOR**
12 **COSTS HAVE INCREASED; TO WHAT DO YOU ATTRIBUTE THESE**
13 **INCREASES?**

14 A. Beginning in January of 2010, Palmetto Utilities' facilities have been operated by an
15 independent, third party utility operator. Prior to that date, operations were conducted by
16 Palmetto Utilities' own employees. The increase in customer base and the additions to
17 plant and facilities have required the company and, subsequently, our third party
18 operator, to hire an additional employee, require higher personnel performance levels,
19 and impose increased job responsibilities for personnel. We have increased the number
20 of man-hours required of our operators as a result of our emphasis on compliance with
21 the rate schedule provisions prohibiting the introduction of grease into our system. These

1 factors have, naturally, required increased employee and third party operator
2 compensation.

3
4 **Q. YOU MENTIONED HEIGHTENED ENFORCEMENT OF THE RATE**
5 **SCHEDULE PROHIBITION AGAINST INTRODUCTION OF GREASE INTO**
6 **THE PALMETTO UTILITIES SYSTEMS; WOULD YOU PLEASE EXPLAIN**
7 **WHY SUCH AN EFFORT IS REQUIRED AND WHAT STEPS IT INVOLVES?**

8 A. Yes. Under section 7 of our rate schedule, customers are not permitted to introduce
9 pollutants into our system. Grease is a pollutant under the regulations mentioned in this
10 rate schedule section. Under Section 8 of the rate schedule, the company is permitted to
11 require customers to upgrade existing grease traps to better prevent the introduction of
12 this pollutant into our system. As a result of the significant growth in the number of
13 restaurants in our service area, the company has found that problems associated with the
14 presence of grease in our system -- which primarily manifest themselves in blockages in
15 mains and lift stations -- have also grown. As a result, we have been required to become
16 more aggressive in the enforcement of standards the Company has adopted to prevent the
17 introduction of grease into our system, including requiring commercial customers to
18 upgrade deficient grease traps. We call these standards the "Sand, Oil and Grease
19 Interceptor Standards" and they are distributed to all commercial customers whose
20 businesses require a grease trap. A copy of these standards and a list of frequently asked
21 questions provided to commercial customers are attached to my testimony as RSJ-Exhibit
22 1.

1 **Q. DO RESIDENTIAL CUSTOMERS ALSO CONTRIBUTE TO THE PROBLEM**
2 **ARISING OUT OF GREASE IN THE SYSTEM?**

3 A. Yes, although not to the degree that commercial customers do. Mr. Melcher discusses
4 the Company's effort to address grease at the residential customer level.

5 **Q. ARE THERE SOURCES OF GREASE IN THE SYSTEM OTHER THAN**
6 **CUSTOMERS?**

7 A. There can be and we suspect that there are. We have observed over the last year or so an
8 increase in sanitary sewer overflows, or "SSOs", in our system – although the number of
9 them have been small compared to other utilities and none resulted in assessment of a
10 penalty. We are aware that other sewer utility systems in the midlands area of the state
11 have also experienced an increase in the number of SSOs in their systems. We are also
12 aware that two of the facilities in this area that formerly accepted restaurant grease for
13 disposal, C.E. Taylor in Pelion and BioTech near Dixiana, have ceased to do so. Based
14 upon the location of grease blockages that caused some of our SSOs, we strongly suspect
15 that the company has been the victim of illegal grease dumping into our manholes.

16 **Q. HAS THE COMPANY TAKEN ANY STEPS TO ADDRESS THIS ISSUE?**

17 A. Yes. When we replace old manhole covers, we bolt or weld shut the new covers to
18 prevent unauthorized access. We have also begun to require that pump-and-haul service
19 providers working for commercial customers in our service area provide proof of
20 disposal. And, we have recently begun to install motion activated game cameras in
21 certain areas of our system that we believe might be susceptible to illegal dumping.

1 **Q. WHAT IS THE PROPOSED RATE INCREASE DESIGNED TO ACCOMPLISH**
2 **FOR THE COMPANY?**

3 A. The proposed rate increase is designed to generate additional revenues that will
4 allow the Company to achieve a sound financial footing, to raise additional capital, and to
5 increase its earnings to a more reasonable level through fair charges to the customer.

6
7
8 **Q. WHY HAS THE COMPANY CHOSEN NOT TO SEEK A RATE INCREASE FOR**
9 **OVER 10 YEARS?**

10 A. Palmetto Utilities is mindful, as it has been in the past, of the effect that a rate increase
11 has on customers. During the last ten plus years, Palmetto's customer base has grown an
12 average of one thousand customers per year. During that period, we were able to forego
13 increases in our monthly service rates because revenues from increased monthly
14 customer billings from new customers almost offset the financial requirements for capital
15 additions and rising costs of operation.

16
17 **Q. WHY IS PALMETTO SEEKING AN INCREASE IN ITS MONTHLY RATES AT**
18 **THIS TIME?**

19 A. Since the worldwide financial crisis that occurred in 2008, Palmetto's rate of customer
20 growth has slowed, but its capital requirements and operational costs have continued to
21 increase. As the financial statements attached to the application on file reflect, the
22 company is now in need of rate relief.

1

2 **Q. YOU MENTIONED THAT THE COMPANY IS MINDFUL OF THE IMPACT AN**
3 **INCREASE IN RATES HAS ON CUSTOMERS; IS THE RELIEF REQUESTED**
4 **REASONABLE IN VIEW OF THE IMPACT ON CUSTOMERS?**

5 **A.** Yes, it is. Although the requested increase for a single family equivalent is nine dollars
6 per month, which represents an increase of approximately thirty percent, we believe that
7 this is reasonable in view of the passage of time since our current monthly service rates
8 were set, the company's investment in that period, and increases in the costs of doing
9 business over that time period. This amounts to an increase of less than one dollar per
10 year or three percent per year since our customers experienced an increase in their
11 monthly service rates. Also, even though we understand that our rates are set on the basis
12 of our own investment and expenses, I would note that the proposed monthly service rate
13 compares favorably to those charged by governmental utilities operating in areas
14 adjoining Palmetto's service area.

15 **Q. ARE THE RATES AND CHARGES PROPOSED FAIR, REASONABLE, AND**
16 **NECESSARY IN ORDER FOR THE COMPANY TO CONTINUE TO PROVIDE**
17 **A SAFE AND RELIABLE WASTEWATER TREATMENT SERVICE?**

18 **A.** Yes. The financial statements and the testimony of company witness Don
19 Clayton clearly reflect that in order to continue providing the type of service which we
20 have been providing, Palmetto must have rate relief. The company believes that the
21 proposed rates fairly distribute the cost to the consumer of providing those services, while
22 at the same time placing the utility on a more solid financial footing. This will hopefully

1 allow the company to attract additional capital to continue financing operations and fund
2 future plant expansions. We remain committed to continuing to provide quality service
3 in an environmentally responsible manner. It is our belief that the rates requested are
4 reasonable, fair, responsible, non-discriminatory and justified in light of customer needs,
5 the company's requirements to meet customer needs, and our commitment to do so in
6 compliance with regulations of this Commission, DHEC, and other regulatory agencies
7 with jurisdiction over the company.

8 **Q. IN ADDITION TO THE PROPOSED INCREASE IN THE MONTHLY SERVICE**
9 **RATE, DOES PALMETTO SEEK APPROVAL FOR OTHER CHANGES TO ITS**
10 **RATE SCHEDULE?**

11 A. Yes. We propose to modify section 1.c of the current rate schedule regarding billing for
12 service to multi-dwelling buildings consisting of four or more units to reflect the
13 company's discretion to offer tenant billing as permitted under South Carolina code
14 section twenty seven thirty three fifty. Section 4.c of the proposed rate schedule also
15 contains a change regarding charges for reconnection of service when disconnection has
16 been made by the use of an elder valve or similar device so as to comport with part four
17 of commission regulation one hundred three five thirty two. And, we propose to modify
18 the definition of Single Family Equivalent in section 11 of the rate schedule to reflect a
19 citation to the DHEC regulation which codifies that agency's guidelines for treatment
20 system design capacities. The company believes that all of these changes are appropriate
21 to conform with current statutory and regulatory language.
22

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**

Palmetto Utilities, Inc.

SAND, OIL, AND GREASE INTERCEPTOR STANDARDS

As of August 1, 2009

The following is the policy statement and standards guide (Standard) of Palmetto Utilities, Inc. (PUI) for the design and installation of sand, oil, and grease interceptors. This statement contains PUI's interpretation and implementation of its rate schedule and other lawful authority.

A. GENERAL

1. It is the intent of this Standard to provide for specific standards for grease trap location, design, installation, construction, operation and maintenance so as to comply with the sewer use and structure. It should be noted that failure to comply with the Standard shall be considered a violation of applicable sections of the existing sewer use and rate schedule and consequently, subject to denial or discontinuance of sewer service.
2. The introduction of sand, oil, and grease into PUI's system represents the introduction of a pollutant into the system that has a detrimental impact on system integrity. By properly controlling the introduction of these pollutants through the use of interceptors and traps, the system integrity is maintained and operation and maintenance for these issues are minimized. Without this Standard and customer compliance with this Standard, the likelihood of overflows is increased, operation and maintenance costs are significantly increased, and the system operates less efficiently.
3. This Standard may be revised from time-to-time as PUI deems appropriate and in PUI's sole discretion.

B. DEFINITIONS

1. Food Service Establishment.

Any commercial facility discharging kitchen or food preparation wastewaters, including but not limited to restaurants, motels, hotels, cafeterias, hospitals, schools, bars, etc., any meat and/or fish processor, and any other facility which, in PUI's opinion, would require a grease trap installation by virtue of its operation. Such definition normally includes any establishment which is required to have a South Carolina Department of Health and Environmental Control (SCDHEC) food service license.

2. Grease Trap/Grease Interceptor.

A grease interceptor is a device which serves to trap and retain within its confines all suspended or semi-solid grease which may have passed through sinks, drains, or other fixtures. The retained grease is then kept from entering the service line which connects the business to the main connector sewer. Ultimately and on a timely basis, the grease must be removed by the owner/operator of the business

and disposed of in a satisfactory fashion. This may be by the owner/operator or by professionals who contract this type of work.

3. Oil Separator.

An oil separator is a device which serves to trap and retain oils or other flammable liquid to prohibit the introduction of same into the sewer system by accident or otherwise.

4. Sand Interceptor.

A sand interceptor is a device which is designed to trap sand and other solids and prohibit its entry into the sewer system.

5. Neutralizing Device.

A neutralizing device is a tank or manufactured device installed to dilute or neutralize acids or corrosive liquids prior to discharge onto collector lines. Such devices shall be automatically provided with a sufficient intake of diluting water or neutralizing medium, so as to make its contents non-injurious before being discharged into the collection system.

C. GENERAL REQUIREMENTS

The following administrative, operational, and other general requirements are applicable to all food service establishments, new or existing. Particular requirements for grease trap/interceptor construction, specifically pertaining to both new and existing food service establishments, can be found in Section D of this Standard.

1. ALL FOOD SERVICE ESTABLISHMENTS IN THE PUI SERVICE AREA SHALL HAVE GREASE-HANDLING FACILITIES APPROVED BY PUI. Establishments whose grease handling facilities are not in accordance with this Standard shall be given a compliance schedule with a deadline not to exceed eight (8) weeks from initial notification date.
2. All food service establishment grease handling facilities/operations shall be subject to periodic review, evaluations, and inspections by PUI representatives at any time. Results of inspections will be made available to facility owners with overall ratings assigned and recommendations for correction/improvement (if necessary) delineated. A PUI REPRESENTATIVE MUST BE PRESENT AT ALL PUMP-OUT OPERATIONS.
3. VIOLATIONS OF THIS STANDARD WILL BE CONSIDERED GROUNDS FOR DISCONTINUANCE OF SEWER SERVICE. PUI HAS THE RIGHT TO TERMINATE A CUSTOMER'S SERVICE WITHOUT NOTICE.

4. Food service establishments whose operations cause or allow excessive grease to discharge or accumulate in the sewer collection system are liable to PUI for all costs related to PUI service calls for line blockages, line cleanings, line and pump repairs, property damages, etc. including all labor, materials, equipment, and overhead. Failure to pay all service-related charges may also be grounds for sewer service discontinuance.
5. PUI will recommend to the Owner(s) the frequency of the grease removal. It will be the responsibility of the Owner to contract the grease removal provider and ensure that the provider is removing the grease based on the recommended frequency. In maintaining the grease interceptors, the Owner(s) shall be responsible for the proper removal and disposal by appropriate means of the captured material and shall maintain on site records of dates, and means of disposal which are subject to review by PUI.

The Owner(s) should ensure that all solids are removed when no more than 75% of the interceptor's capacity is reached.

Failure to comply with the recommended frequency schedule may be grounds for sewer service discontinuance.

6. Any food service establishment whose effluent is suspected or perceived by PUI to contain a concentration of greater than 100 mg/l of oil and grease may be required to routinely sample their grease trap effluent and have it analyzed for oil and grease at the expense of the Owner and furnish a copy of the analysis to PUI.
7. All grease traps/interceptors shall be designed, installed, and located in accordance with this Standard to allow for complete access to inspection, maintenance, etc.
8. All grease traps/interceptors must be installed by properly licensed contractors.
9. Should a deficiency in the maintenance of the grease trap be noted during an inspection by PUI, a citation for correction may be given to the facility. The facility must correct the deficiency within five (5) calendar days following that date.

D. CONSTRUCTION STANDARDS

1. New Facilities
 - a. All newly constructed (or newly located) food service establishments shall be required to install a grease interceptor, approved by PUI. Grease interceptors shall be sized at 20 gallons per food service seat with no interceptor less than 1,000 gallons total capacity.

- b. New facilities must have a are required to complete an initial grease trap application to install a grease trap and submit such application with plans, specifications, plumbing diagrams, riser diagrams, etc. to PUI for review.
 - c. All grease trap/interceptor plans and specifications must be reviewed and approved by PUI prior to installation. An approval letter for each new trap will be issued by PUI prior to construction and/or installation.
 - d. The construction and location criteria for grease interceptors must be in accordance with the Environmental Protection Agency (EPA) Guidance Document, "On-site Wastewater Treatment and Disposal Systems," Chapter 8.
 - e. All grease interceptors, whether singular or in series, must be directly accessible from the surface and must be fitted with an extended inlet sanitary tee that terminates 12" above the tank floor. The minimum access opening dimensions shall be 18" by 18" or a minimum of 24" in diameter. Two (2) access openings (inlet and outlet chambers) to underground traps are required and should be removable with ease by one person and accessible from the surface. All grease interceptors must have an elder valve. A typical grease trap is provided in detail as Appendix A to this Standard.
 - f. Maintenance of grease traps/interceptors must include thorough pump-out and/or cleaning as needed, with a minimum frequency of six (6) times per year per Section C, Paragraph 5 of this Standard. Maintenance contracts may be required to be submitted to PUI as called for in Section C, Paragraph 5. The Owner, however, is ultimately responsible for proper maintenance of the grease trap facility(ies).
 - g. No new food service facility will be allowed to initiate operations until grease handling facilities are installed and approved by PUI.
2. Existing Facilities
- a. All existing food service establishments (or renovated or expanded establishments) must have grease handling facilities approved by PUI. Failure to comply with this Standard will be considered a violation of the rate schedule and will subject the establishment to sewer service discontinuance.
 - b. Wastewater from dishwashers and garbage grinders should not be discharged to grease traps/interceptors, unless approved by PUI.
 - c. In the maintaining of existing grease traps/interceptors, the Owner(s) shall be responsible for the proper removal and disposal by appropriate means

of the captured material and shall maintain records of the dates and means of disposal which are subject to review by PUI, per Section C, Paragraph 5 of this Standard.

- d. In the event of an existing food service establishment's grease handling facilities are either under-designed, substandard, or poorly operated, the Owner(s) will be notified in writing, of the required improvements and given a compliance deadline not to exceed eight (8) weeks to conform with the requirements of this Grease Standard. This does not include general grease removal violations referred to in Section C, Paragraph 9 of this Standard.
- e. Any use of enzymes or other grease solvents, emulsifiers, etc. in lieu of physical cleaning is not considered acceptable grease trap maintenance practice.

3. New Food Service Establishments in Existing Buildings

- a. Where practical, new food service establishments locating in existing buildings will be required to comply with the Grease Trap Standards applicable to new facilities, i.e., outdoor grease traps units (minimum size 1,000 gallons) shall be installed. Flow control fittings and/or automatically cleaned units will be required in all cases. Maintenance contracts and/or clean-out records will also be required.

E. SAND, OIL AND GREASE INTERCEPTOR

- 1. Provide precast concrete vault.
 - a. 4000 psi concrete.
- 2. Other construction and/or prefabricated materials may be considered by PUI. Shop drawing submittal and approval by PUI shall precede any construction or installation.

F. LOCATING

- 1. Easily accessible for cleaning and solids removal.

G. MANHOLE FRAMES AND COVERS

- 1. Provide grey iron castings, ASTM A48, Class 30 iron.
- 2. Machine all bearing surfaces.
- 3. Coat frames and covers with two shop coats of bitumastic paint.

4. Provide watertight covers, where indicated, conforming to above requirements and with frame tapped for four bolts, countersunk in cover.
 - a. Provide rubber gasket between frame and cover.

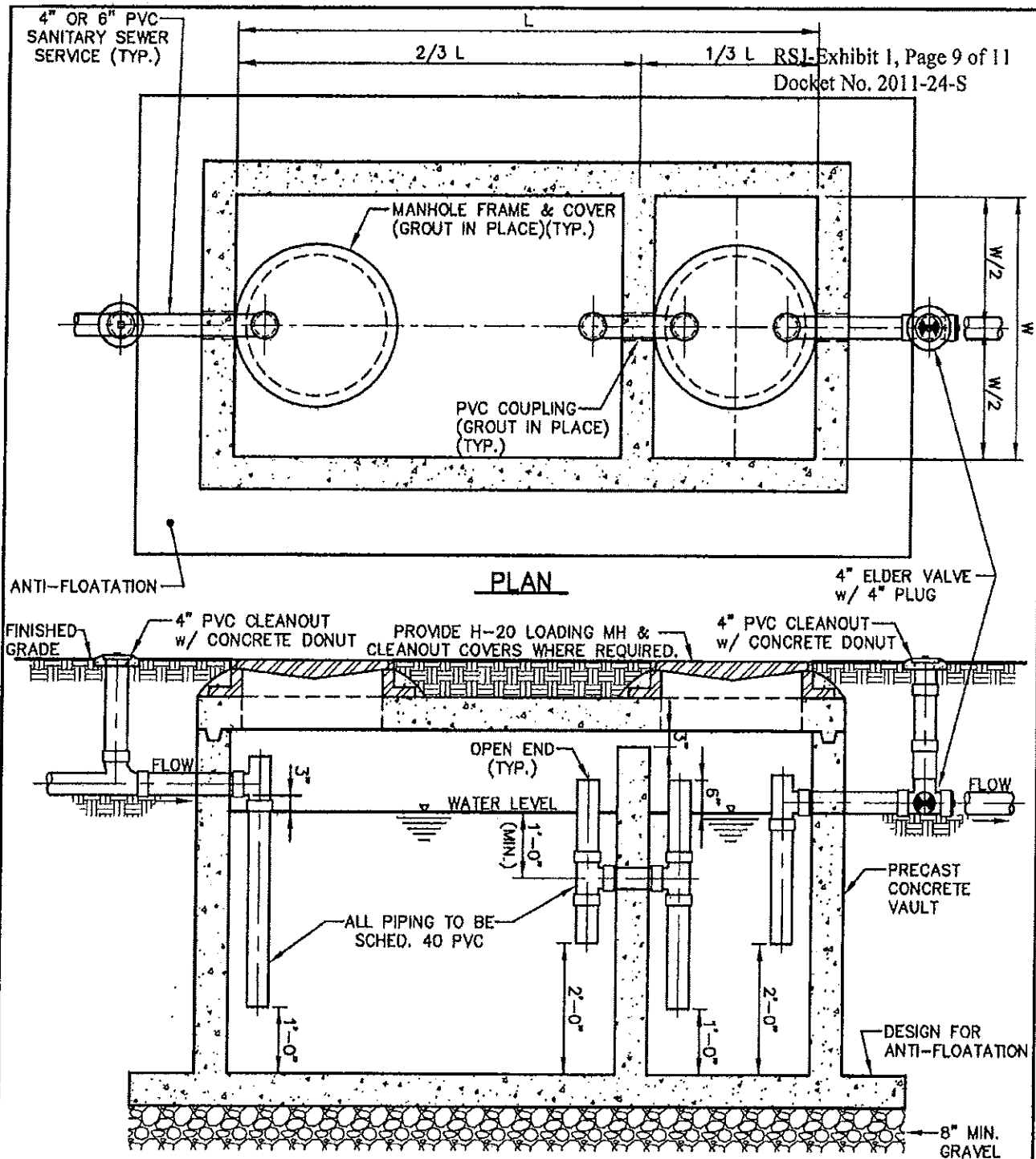
H. **ENFORCEMENT**

1. Enforcement of this Standard shall be in accordance with the provisions of PUI rate schedule and applicable law. **FAILURE TO COMPLY WITH THIS STANDARD MAY BE GROUNDS FOR DISCONTINUANCE OF SEWER SERVICE WITHOUT NOTICE. ADDITIONALLY, FAILURE TO COMPLY MAY RESULT IN NOTIFICATION TO THE COUNTY HEALTH DEPARTMENT FOR REQUEST OF ENFORCEMENT ACTION WHICH MAY LEAD TO REVOCATION OF FOOD SERVICE PERMITS.**
2. For new food service establishments, PUI may elect to request from appropriate building official that certificates of occupancy be withheld until compliance with PUI's requirements, including grease trap compliance is fully met.

Appendix A

Example of a grease trap design

RSJ-Exhibit 1, Page 9 of 11
Docket No. 2011-24-S



NOTES:

1. ALL PROPOSED GREASE TRAP PLANS TO BE SUBMITTED & APPROVED BY PALMETTO UTILITIES, INC. PRIOR TO INSTALLATION.

2. ELDER VALVE MUST BE INSTALLED.
3. MINIMUM CAPACITY 20 gal. PER SEAT.
4. CALL (803) 699-2422 FOR INSPECTION.

**PALMETTO UTILITIES STANDARD
GREASE TRAP WITH ELDER VALVE**

SCALE: 1/2"=1'-0"

GREASE TRAP WITH ELDER VALVE.dwg

R/19/09

PALMETTO UTILITIES, INC.
SAND, OIL, AND GREASE
INTERCEPTOR STANDARDS FAQs

Effective August 1, 2009 Palmetto Utilities, Inc. adopted standards in an effort to reduce the amount of pollutants entering our system. Due to the high volume of calls received regarding these standards, Palmetto Utilities, Inc. has developed this "Frequently Asked Questions" memorandum to answer questions. Please feel free to call PUI's office at (803) 699-2422 if you have any further questions.

Frequently Asked Questions

Why is Palmetto Utilities, Inc. making its customers upgrade their grease traps?

Palmetto Utilities, Inc.'s goal in adopting these standards is to reduce the amount of pollutants, notably grease, in its system. The accumulation of grease in lines, lift stations, and treatment works is a problem that could result and has resulted in clogging and backups and in significant costs. Importantly, these are the same standards that are used by other local utilities and are widely-accepted industry standards.

In the past, PUI's only requirement was that restaurant establishments have a grease trap, and the design and maintenance of the grease traps was left to the establishments. Two years of observing grease in the system indicated to PUI the prior standards were ineffective. This appears to be largely the result of improperly installed grease traps, the installation of inefficient grease traps, and a failure to maintain existing grease traps. As a result, it was clear that PUI must take stronger and more proactive measures to protect its system. It then developed the August 1, 2009 standards that are applicable system-wide.

Who will pay for these upgrades?

Palmetto Utilities, Inc. takes no position on who is responsible for payment, only that the upgrades must be made. Ultimately, it is the customer that PUI will hold responsible for complying with the standards.

How long will I have to make these upgrades?

Palmetto Utilities, Inc., pursuant to the Standards, provides each establishment 8 weeks after notification to complete the upgrades. Notification will occur (or, in many cases has occurred) at the regularly scheduled pump-out of the installed traps or at an inspection of the establishment's facilities. The inspection report issued to the establishment will indicate the results of the inspection, including any disapproval of the facilities (e.g., the trap) and a compliance date by which any deficiencies should be resolved.

Why are the existing grease traps not subject to a “grandfather clause”?

Based on experience and observation, the existing grease traps are ineffective, and therefore pollutants such as grease are being introduced into the system and causing harm to the system, including increased costs. PUI has determined that the application of the Standards across its system should significantly assist in reducing the pollutants into the system. If PUI allowed all existing traps to remain in place, there would be little improvement in system performance.

How do I benefit from these grease trap upgrades?

Everyone benefits from preserving the integrity of the wastewater system. This should reduce backups and overflows and reduce maintenance costs.

Also, PUI's pump-out frequency is based on whether or not a visual inspection indicates that grease is leaving the effluent pipe and entering PUI's system. The standard frequency is one pump-out every four weeks. However, in some cases the upgrades will improve the efficiency of the facilities to the degree that pump-outs are less frequent.

Once all of the upgrades are complete and the facilities meet the Standards, PUI will permit the use of an effluent water test to determine the frequency of pump-outs. This test is performed at customer's expense and with PUI's approval. If the grease content in the water meets certain criteria, PUI may be able to adjust the frequency. This may require more than one effluent test. However, if, for example, a customer is on a four-week schedule and the upgrade allows the customer to switch to an eight-week schedule, then the upgrade costs will pay for themselves within several years.

Once I make these upgrades will Palmetto Utilities, Inc. ask me to make more upgrades in the future?

Palmetto Utilities, Inc.'s goal in adopting the Standards is to reduce the amount of pollutants introduced into the system. These upgrades, combined with timely removal of the traps, should reduce the pollutants entering the system. However, the Standards may be revised from time-to-time in response to changes in environmental regulations, changes in utility regulation, and changes in circumstances on the system.

What happens if I refuse to make the upgrades?

Pursuant to its authorized and approved rate schedule and state law, Palmetto Utilities, Inc. has the authority to require additional construction (including traps) to protect its wastewater system from pollutants. See S.C. Public Service Commission Order 2000-0481 (June 7, 2000); Rate Schedule § 8. Refusal to comply with the Standards is grounds for termination of service both for refusing to comply with an applicable standard and because a failure to comply results in the direct introduction of pollutants into PUI's system.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-24-S

Application of Palmetto Utilities, Inc.)
for adjustment of rates and charges)
for, and modification to certain terms)
and conditions related to,)
the provision of sewer service.)

SETTLEMENT TESTIMONY OF
R. STANLEY JONES, P.E.

1 **Q. ARE YOU THE SAME R. STANLEY JONES THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 A. Yes, I am.

4 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN THIS**
5 **PROCEEDING, MR. JONES?**

6 A. The purpose of my testimony is to discuss the settlement agreement between
7 Palmetto Utilities, Inc. ("Palmetto") and the South Carolina Office of Regulatory Staff
8 ("ORS") and to support its approval by the Commission.

9 **Q. HAS THE COMPANY ENTERED INTO A SETTLEMENT AGREEMENT WITH**
10 **THE OFFICE OF REGULATORY STAFF?**

11 A. Yes. The Company has been able to successfully negotiate a resolution of the
12 issues in this matter with ORS.

13 **Q. IS THE SETTLEMENT AGREEMENT A REASONABLE MEANS OF**
14 **RESOLVING THE ISSUES IN THIS CASE?**

1 A. Yes, it is. In the context of the present settlement agreement, the rate and the
2 adjustments proposed by the ORS witnesses, Ms. Hannah K. Majewski and Ms. Christina
3 A. Stutz, allow the Company the opportunity to earn sufficient revenue to ensure safe and
4 reliable service to its customers at an affordable rate. The Company believes that the
5 proposed settlement rate fairly distributes the cost to the consumer of providing those
6 services, while at the same time placing the utility on a more solid financial footing.
7 Additionally, ORS has stipulated that this agreement serves the public interest.

8 It is our belief that the agreed-upon rate in the comprehensive settlement
9 agreement is reasonable, fair, responsible, non-discriminatory and justified when
10 considered as a part of the settlement agreement in its entirety and in light of the
11 customers' needs, the Company's requirements to meet the customers' needs, and the
12 Company's commitment to do so in compliance with regulatory requirements.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.

SETTLEMENT EXHIBIT 3

SETTLEMENT EXHIBIT 3

ATTACHMENT 1

Audit Settlement Exhibit CAS-1

Page 1 of 3

**Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>UTILITY OPERATING INCOME:</u>					
<u>Wastewater Sales Revenue</u>					
Service Revenues - Residential	4,294,516	(446,536) (A)	3,847,980	456,540 (MM)	4,304,520
Service Revenues - Commercial & Industrial	1,094,969	596,504 (B)	1,691,473	200,682 (NN)	1,892,155
Billing Adjustments	11,482	(11,482) (C)	0	0	0
Total Service Revenues	5,400,967	138,486	5,539,453	657,222	6,196,675
<u>Other Wastewater Revenues</u>					
Late Fees	49,672	0	49,672	5,893 (OO)	55,565
Notification Fees	89,925	0	89,925	0	89,925
Customer Account Change	18,540	0	18,540	0	18,540
Reconnect Fees	26,145	0	26,145	0	26,145
Returned Check Fees	4,371	0	4,371	0	4,371
Tap Fees (non-CIAC portion)	99,243	0	99,243	0	99,243
Total Other Wastewater Revenues	287,896	0	287,896	5,893	293,789
<u>TOTAL UTILITY OPERATING INCOME</u>	5,688,863	138,486	5,827,349	663,115	6,490,464
<u>UTILITY OPERATING EXPENSES:</u>					
<u>Pumping Expenses</u>					
Purchased Power	641,148	0 (D)	641,148	0	641,148
Contractual Services - Other	407,063	(163,906) (E)	243,157	0	243,157
Contractual Services - Other - ROW Program	0	82,780 (F)	82,780	0	82,780
Total Pumping Expenses	1,048,211	(81,126)	967,085	0	967,085
<u>Treatment and Disposal Expenses</u>					
Salaries and Wages - Employees	136,014	(136,014) (G)	0	0	0
Employee Pensions and Benefits	334	(334) (H)	0	0	0
Sludge Removal Expense	211,905	0 (I)	211,905	0	211,905
Chemicals	71,465	0	71,465	0	71,465
Contractual Services - Management Fees	170,000	194,737 (J)	364,737	0	364,737
Contractual Services - Testing	14,624	0	14,624	0	14,624
Contractual Services - Other	77,720	(77,720) (K)	0	0	0
Rental of Equipment	22,347	0	22,347	0	22,347
Transportation Expenses	39,864	(39,864) (L)	0	0	0
Miscellaneous Expenses	12,324	0	12,324	0	12,324
Total Treatment and Disposal Expenses	756,597	(59,195)	697,402	0	697,402
<u>Customer Accounts Expenses</u>					
Materials and Supplies	32,153	(3,065) (M)	29,088	0	29,088
Contractual Services - Management Fees	115,667	298,333 (N)	414,000	0	414,000
Bad Debt Expense	14,672	29,644 (O)	44,316	5,258 (PP)	49,573
Miscellaneous Expenses	56,715	0	56,715	0	56,715
Total Customer Accounts Expenses	219,207	324,912	544,119	5,258	549,376

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Administrative and General Expenses</u>					
Salaries and Wages - Employees	123,079	(77,938) (P)	45,141	0	45,141
Salaries and Wages - Officers, Directors, and Majority Stockholders	174,446	(118,415) (Q)	56,031	0	56,031
Employee Pension and Benefits	92,636	(88,289) (R)	4,347	0	4,347
Purchased Power	4,590	0	4,590	0	4,590
Materials and Supplies	767	(356) (S)	411	0	411
Contractual Services - Engineering	31,092	0	31,092	0	31,092
Contractual Services - Accounting	68,556	9,531 (T)	78,087	0	78,087
Contractual Services - Legal	68,221	(23,811) (U)	44,410	0	44,410
Rental of Building/Real Property	51,475	875 (V)	52,350	0	52,350
Insurance - Vehicle	14,960	(14,960) (W)	0	0	0
Insurance - General Liability	25,110	0	25,110	0	25,110
Insurance - Workman's Compensation	5,742	0	5,742	0	5,742
Insurance - Other	23,875	0	23,875	0	23,875
Miscellaneous Expenses (includes Corporate Overhead)	795,440	386,590 (X)	1,182,030	0	1,182,030
Total Administrative and General Exp.	1,479,989	73,228	1,553,217	0	1,553,217
<u>TOTAL OPERATING EXPENSES</u>	3,504,004	257,819	3,761,823	5,258	3,767,080
<u>Depreciation and Amortization</u>					
Depreciation Expenses	2,042,915	(73,524) (Y)	1,969,391	0	1,969,391
Amortization of Regulatory Liabilities (CIAC)	(1,505,569)	(35,584) (Z)	(1,541,153)	0	(1,541,153)
Total Depreciation and Amortization	537,346	(109,108)	428,238	0	428,238
<u>Taxes Other Than Income Taxes</u>					
Utility Regulation Assessment Fees	34,751	10,488 (AA)	45,239	4,371 (QQ)	49,610
Property Taxes	284,317	0	284,317	0	284,317
Payroll Taxes	29,504	(19,140) (BB)	10,364	0	10,364
Other Taxes and Licenses	40,917	(817) (CC)	40,100	1,989 (RR)	42,089
Total Taxes Other Than Income Taxes	389,489	(9,469)	380,020	6,361	386,381
<u>Income Taxes</u>					
Federal Income Taxes	86,304	313,155 (DD)	399,459	216,623 (SS)	616,082
State Income Taxes	21,990	38,079 (EE)	60,069	32,575 (TT)	92,644
Deferred Federal Income Taxes	204,349	0	204,349	0	204,349
Total Income Taxes	312,643	351,234	663,877	249,198	913,075
<u>TOTAL UTILITY OPERATING EXPENSES</u>	4,743,482	490,476	5,233,958	260,816	5,494,774
<u>TOTAL NET UTILITY OPERATING INCOME (LOSS)</u>	945,381	(351,990)	593,391	402,299	995,690
<u>Other Operating Income (Loss)</u>					
Gains (Losses) from Disposition of Utility Property	175,144	(175,144) (FF)	0	0	0
Total Other Operating Income (Loss)	175,144	(175,144)	0	0	0

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Other Income and Deductions</u>					
Interest and Dividend Income	152,707	(152,707) (GG)	0	0	0
Non-Utility Income	106,659	(106,659) (HH)	0	0	0
Miscellaneous Non-Utility Expenses	(1,022,703)	1,022,703 (II)	0	0	0
Total Other Income and Deductions	(763,337)	763,337	0	0	0
<u>Interest Expense</u>					
Interest on Long-Term Debt	212,789	(156,902) (JJ)	55,887	0	55,887
Amortization of Debt Discount and Expense	17,243	(17,243) (KK)	0	0	0
Total Interest Expense	230,032	(174,145)	55,887	0	55,887
Add: Customer Growth	0	14,528 (LL)	14,528	9,850 (UU)	24,378
<u>NET INCOME (LOSS) FOR MARGIN</u>	<u>127,156</u>	<u>424,876</u>	<u>552,032</u>	<u>412,149</u>	<u>964,181</u>
Operating Margin	<u>12.57%</u>		<u>9.47%</u>		<u>14.86%</u>

Note: The Company's application did not include the calculation of an Operating Margin. For comparison purposes, ORS computed the Per Books operating margin using Net Utility Operating Income less Interest Expense divided by Total Utility Operating Income.

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

ATTACHMENT 1
Audit Settlement Exhibit CAS-2
Page 1 of 4

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<u>Accounting and Pro forma Adjustments</u>					
<u>Utility Operating Income:</u>					
(A) Service Revenues - Residential	1	10	To adjust residential revenues to reflect test year customer billings.	<u>(446,536)</u>	<u>(601)</u>
(B) Service Revenues - Commercial & Industrial	2	10	To adjust commercial and industrial revenues to reflect test year customer billings.	<u>596,504</u>	<u>49</u>
(C) Billing Adjustments	3		To remove billing adjustments already accounted for in revenues.	<u>(11,482)</u>	<u>0</u>
<u>Utility Operating Expenses:</u>					
<u>Pumping Expenses:</u>					
(D) Purchased Power	4	2	ORS does not propose to adjust for anticipated increases in purchased power.	<u>0</u>	<u>45,202</u>
(E) Contractual Services - Other	5		To remove expenses now replaced with UGSC contract.	<u>(407,063)</u>	<u>0</u>
	6	12	To remove capitalized wages.	<u>(10,843)</u>	<u>(10,843)</u>
	7	1	To add contract labor for UGSC.	<u>254,000</u>	<u>254,000</u>
			Total Contractual Services - Other	<u>(163,906)</u>	<u>243,157</u>
(F) Contractual Services - Other - ROW Program	8	4	To annualize costs associated with the right of way clearing project.	<u>82,780</u>	<u>241,211</u>
<u>Treatment and Disposal Expenses:</u>					
(G) Salaries and Wages - Employees	9	1	To remove wages now replaced with UGSC contract.	<u>(136,014)</u>	<u>(136,014)</u>
(H) Employee Pension and Benefits	10	1	To remove benefits associated with adjusted wages.	<u>(334)</u>	<u>(334)</u>
(I) Sludge Removal Expense	11	3	ORS does not propose to increase sludge removal costs based on estimated increases.	<u>0</u>	<u>18,344</u>
(J) Contractual Services - Management Fees	12	1	To remove expenses now replaced with UGSC contract work.	<u>(170,000)</u>	<u>(170,000)</u>
	13	12	To remove capitalized wages.	<u>(16,263)</u>	<u>(16,263)</u>
	14	1	To add contract labor for UGSC.	<u>381,000</u>	<u>381,000</u>
			Total Contractual Services - Management Fees	<u>194,737</u>	<u>194,737</u>
(K) Contractual Services - Other	15		To remove expenses now replaced with contract work.	<u>(77,720)</u>	<u>0</u>
(L) Transportation Expenses	16	1	To remove vehicles sold	<u>(39,864)</u>	<u>(39,864)</u>
<u>Customer Accounts Expenses:</u>					
(M) Materials and Supplies	17		To remove nonallowable expenses.	<u>(3,065)</u>	<u>0</u>
(N) Contractual Services - Management Fees	18	1	To remove expenses now replaced with UGSC contract.	<u>(115,667)</u>	<u>(115,667)</u>
	19	1	To add contract labor for UGSC	<u>414,000</u>	<u>414,000</u>
			Total Contractual Services - Management Fees	<u>298,333</u>	<u>298,333</u>

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
(O) Bad Debt Expenses	20		To include bad debt expense based on adjusted revenues.	<u>29,644</u>	<u>0</u>
<u>Administrative and General Expenses:</u>					
(P) Salaries and Wages - Employees	21	1	To remove terminated employee and allocate salaries among various companies.	<u>(77,938)</u>	<u>(56,129)</u>
(Q) Salaries and Wages - Officers, Directors, and Majority Shareholders	22	11	To remove salaries allocated to various companies.	(52,913)	554
	23	12	To remove capitalized salaries	<u>(65,502)</u>	<u>(65,502)</u>
			Total Salaries and Wages	<u>(118,415)</u>	<u>(64,948)</u>
(R) Employee Pension and Benefits	24	1	To annualize pension and other benefits associated with the adjusted test year salaries.	(81,811)	(76,104)
	25	12	To remove capitalized salaries	<u>(6,478)</u>	<u>(6,478)</u>
			Total Employee Pension and Benefits	<u>(88,289)</u>	<u>(82,582)</u>
(S) Materials and Supplies	26		To remove nonallowable expenses.	<u>(356)</u>	<u>0</u>
(T) Contractual Services - Accounting	27		To amortize a portion of rate case expenses over a five-year period	<u>9,531</u>	<u>41,667</u>
(U) Contractual Services - Legal	28	5	To remove non-utility expenses	(33,342)	231,697
	29	14	To include a portion of amortized rate case expenses.	<u>9,531</u>	<u>41,667</u>
			Total Contractual Services - Legal	<u>(23,811)</u>	<u>273,364</u>
(V) Rental of Building/Real Property	30		To annualize rent costs and allocate correct portion to PUI	<u>875</u>	<u>0</u>
(W) Insurance - Vehicle	31	1	To remove vehicle insurance for sold fleet.	<u>(14,960)</u>	<u>(14,960)</u>
(X) Miscellaneous Expenses (Includes Corporate Overhead)	32		To remove nonallowables from expenses.	(80,767)	0
	33		To annualize overhead costs after removing nonallowable expenses.	498,047	0
	34	12	To remove capitalized wages.	(31,484)	(31,484)
	35	14	To include a portion of amortized rate case expenses.	<u>794</u>	<u>3,381</u>
			Total Miscellaneous Expenses	<u>386,590</u>	<u>(28,103)</u>
<u>Depreciation and Amortization</u>					
(Y) Depreciation Expenses	36	8,9	To update depreciation costs after removing undocumented expenses, salaries already expensed in prior years, non-utility expenses, etc. See Exhibit CAS-3 for details.	<u>(73,524)</u>	<u>20,743</u>
(Z) Amortization and Regularity	37	8	To reflect correct CIAC amount.	<u>(35,584)</u>	<u>(27,185)</u>

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<u>Taxes Other Than Income:</u>					
(AA) Utility Regulatory Assessment Fees	38		To adjust utility/commission taxes after the accounting and pro forma adjustments using a factor of .0065919.	<u>10,488</u>	<u>0</u>
(BB) Payroll Taxes	39	1	To adjust payroll taxes associated with the adjusted test year salaries.	<u>(19,140)</u>	<u>(5,061)</u>
(CC) Other Taxes and Licenses	40		To remove nonallowable items and update license fees after adjusted revenues.	<u>(817)</u>	<u>0</u>
<u>Income Taxes:</u>					
(DD) Federal Income Taxes, Utility Operating Income	41	15	To adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CAS-4.	<u>313,155</u>	<u>(69,468)</u>
(EE) State Income Taxes, Utility Operating Income	42	15	To adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit CAS-4.	<u>38,079</u>	<u>(10,113)</u>
<u>Other Operating Income (Loss):</u>					
(FF) Gains (Losses) from Disposition of Utility Property	43	6	To remove gains/(losses) on non-utility property from the test year.	<u>(175,144)</u>	<u>(175,144)</u>
<u>Other Income and Deductions:</u>					
(GG) Interest and Dividend Income	44	7	To remove non-utility interest and dividend income.	<u>(152,707)</u>	<u>(152,707)</u>
(HH) Non-Utility Income	45	7	To remove non-utility income	<u>(106,659)</u>	<u>(106,659)</u>
(II) Miscellaneous Non-Utility Expenses	46	5,6,9	To remove miscellaneous non-utility expenses	<u>1,022,703</u>	<u>1,022,703</u>
<u>Interest Expense:</u>					
(JJ) Interest on Long-Term Debt	47		To remove non-allowable interest expense.	<u>(156,902)</u>	<u>0</u>
(KK) Amortization of Debt Discount and Expense	48		To remove amortization of debt expense associated with acquisitions.	<u>(17,243)</u>	<u>0</u>
<u>Customer Growth:</u>					
(LL) Customer Growth	49		To adjust for customer growth after the accounting and pro forma adjustments. The growth factor of 2.44833% was computed by the Water and Wastewater Department.	<u>14,528</u>	<u>0</u>
<u>Applicant's Proposed Increase</u>					
(MM) Service Revenues - Residential	50	13	To adjust sewer service revenues for ORS's recalculation of the Company's proposed rate increase.	<u>456,540</u>	<u>1,310,006</u>
(NN) Service Revenues - Commercial & Industrial	51	13	To adjust sewer service revenues for ORS's recalculation of the Company's proposed rate increase.	<u>200,682</u>	<u>334,068</u>
(OO) Late Fees	52		To adjust for late fees associated with the proposed increase	<u>5,893</u>	<u>0</u>
(PP) Bad Debt Expense	53		To include bad debt expense associated with the Company's proposed rate increase.	<u>5,258</u>	<u>0</u>
(QQ) Utility Regulatory Assessment Fees	54		To adjust utility/commission taxes associated with the Company's proposed increase using a factor of .0065919 for PSC/ORS	<u>4,371</u>	<u>0</u>

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

ATTACHMENT 1
Audit Settlement Exhibit CAS-2
Page 4 of 4

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
(RR) Other Taxes and Licenses	55		To adjust gross receipts associated with the Company's proposed increase using a factor of .003 for SCDOR.	<u>1,989</u>	<u>0</u>
(SS) Federal Income Taxes, Utility Operating Income	56	15	To adjust federal income taxes associated with the Company's proposed increase. See Audit Exhibit CAS-4.	<u>216,623</u>	<u>531,036</u>
(TT) State Income Taxes, Utility Operating Income	57	15	To adjust state income taxes associated with the Company's proposed increase. See Audit Exhibit CAS-4.	<u>32,575</u>	<u>82,204</u>
(UU) Customer Growth	58		To adjust customer growth associated with the Company's proposed increase. The growth factor of 2.44833% for wastewater was provided by the Water and Wastewater	<u>9,850</u>	<u>0</u>

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended April 30, 2010

Description	Cost	Additions	Retirements	Pro forma Cost	Service Life	Rate	Expense
	\$	\$	\$	\$	Years	%	\$
<u>Plant in Service</u>							
<u>Collection System - Force</u>							
PVC - 4" to 30"	2,664,051	75,094	-	2,739,145	30	3.33%	91,214
DIP - 4" to 30"	123,337	10,373	-	133,710	30	3.33%	4,453
Air Release Manholes	7,088	5,147	-	12,235	30	3.33%	407
	2,794,476	90,614	-	2,885,090			96,074
<u>Collection System - Gravity</u>							
PVC - 4" to 30"	19,370,040	140,712	-	19,510,752	45	2.22%	433,139
DIP - 4" to 30"	1,529,126	4,574	-	1,533,700	45	2.22%	34,048
Air Release Manholes	8,520,332	86,799	-	8,607,131	30	3.33%	286,617
	29,419,498	232,085	-	29,651,583			753,804
<u>Collection System - Services to Customers</u>							
Services	1,674,493	35,338	-	1,709,831	38	2.63%	44,969
Elder Valves	1,273,984	29,185	-	1,303,169	38	2.63%	34,273
Grease Traps	4,406	8,609	-	13,015	38	2.63%	342
	2,952,883	73,132	-	3,026,015			79,584
<u>Pumping Plant</u>							
Structures & Improvement	3,331,582	2,799	-	3,334,381	32	3.13%	104,366
Pumping Equip - Fully Accrued	216,422	-	-	216,422			FD
Pumping Equip	4,504,920	499,579	(102,965)	4,901,534	18	5.56%	272,525
	8,052,924	502,378	(102,965)	8,452,337			376,891
<u>Treatment & Disposal Plant</u>							
Land and Land Rights	136,355	-	-	136,355			N/A
Structures & Improvements	1,425,279	8,387	-	1,433,666	32	3.13%	44,874
Power Generating Equipment	364,486	-	-	364,486	20	5.00%	18,224
Pumping Equip - Fully Accrued	167,410	-	-	167,410			FD
Pumping Equip	477,013	-	-	477,013	18	5.56%	26,522
Treat & Disp Equip - Fully Accrued	304,221	-	-	304,221			FD
Treat & Disp Equipment	7,614,004	193,630	(17,053)	7,790,581	18	5.56%	433,156
Plant Sewers	455,466	-	-	455,466	35	2.86%	13,026
Outfall Sewer Lines	1,658,755	-	-	1,658,755	30	3.33%	55,237
Other Plant & Misc Equip	270,194	-	-	270,194			FD
Other Plant and Misc Equip	1,429,729	-	-	1,429,729	18	5.56%	79,493
	14,302,912	202,017	(17,053)	14,487,876			670,532
<u>General Plant</u>							
Land and Land Rights	520,741	-	-	520,741			N/A
<u>Furniture and Equipment</u>							
Furniture and Equipment	26,792	3,226	-	30,018	15	6.67%	2,002
Computers - Fully Accrued	28,799	1,114	-	29,913			FD
Computers	81,826	877	-	82,703	6	16.67%	13,787
Transportation Equipment	27,468	-	-	27,468	6	16.67%	4,579
Tools, Shop, and Garage Equipment	108,708	27,585	-	136,293	16	6.25%	8,518
Laboratory Equipment	31,014	1,198	-	32,212	15	6.67%	2,149
Power Operated Equipment	54,917	1,712	-	56,629	12	8.33%	4,717
Communication Equipment	73,918	-	-	73,918	10	10.00%	7,392
Other Tangible Plant	5,513	-	-	5,513	10	10.00%	551
	438,955	35,712	-	474,667			43,695
Total Plant in Service	58,482,389	1,135,938	(120,018)	59,498,309			2,020,580

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended April 30, 2010

Description	Cost	Additions	Retirements	Pro forma Cost	Service Life	Rate	Expense
	\$	\$	\$	\$	Years	%	\$
<u>ORS Adjustments:</u>							
Stan Jones Capitalized Salary 1999-2010				(662,392)		3.40%	(22,521)
2002 Undocumented Expenses & Sample				(20,350)		3.40%	(692)
Engineering Salaries				(222,000)		3.40%	(7,548)
Capitalized Salaries (Adj. 11, 19, 33, 35, 47)				130,570		3.40%	4,439
Non-Utility Expenses							(24,825)
Furniture				(1,231)		3.40%	(42)
Total Adjustments				(775,403)			(51,189)
Adjusted Plant in Service				58,722,906			1,969,391
Less: Per Books Amount							2,042,915
Total Adjustment to Depreciation							(73,524)
<u>Contributions in Aid of Construction</u>							
<u>Collection System - Force</u>							
PVC - 4" to 30"	(2,253,973)	(75,094)	-	(2,329,067)	30	3.33%	(77,558)
DIP - 4" to 30"	(120,840)	(10,373)	-	(131,213)	30	3.33%	(4,369)
Air Release Manholes	(3,215)	(5,147)	-	(8,362)	30	3.33%	(278)
	(2,378,028)	(90,614)	-	(2,468,642)			(82,205)
<u>Collection System - Gravity</u>							
PVC - 4" to 30"	(16,222,238)	(138,485)	-	(16,360,723)	45	2.22%	(363,208)
DIP - 4" to 30"	(1,519,371)	(4,574)	-	(1,523,945)	45	2.22%	(33,832)
Manholes	(8,122,635)	(86,799)	-	(8,209,434)	30	3.33%	(273,374)
	(25,864,244)	(229,858)	-	(26,094,102)			(670,414)
<u>Collection System - Services to Customers</u>							
Services	(1,618,083)	(35,338)	-	(1,653,421)	38	2.63%	(43,485)
Elder Valves	(1,214,072)	(29,185)	-	(1,243,257)	38	2.63%	(32,698)
Grease Traps	-	(8,609)	-	(8,609)	38	2.63%	(226)
	(2,832,155)	(73,132)	-	(2,905,287)			(76,409)
<u>Pumping Plant:</u>							
Structures and Improvements	(3,027,244)	-	-	(3,027,244)	32	3.13%	(94,753)
Pumping Equipment - Fully Accrued	(60,281)	-	-	(60,281)			FD
Pumping Equipment	(3,680,322)	(380,629)	80,032	(3,980,919)	18	5.56%	(221,339)
	(6,767,847)	(380,629)	80,032	(7,068,444)			(316,092)
<u>Treatment and Disposal Plant</u>							
Land and Land Rights	(60,845)	-	-	(60,845)			N/A
Structures and Improvements	(766,601)	(8,387)	-	(774,988)	32	3.13%	(24,257)
Power Generating Equipment	(190,541)	-	-	(190,541)	20	5.00%	(9,527)
Pumping Equipment - Fully Accrued	(30,412)	-	-	(30,412)			FD
Pumping Equipment	(285,056)	-	-	(285,056)	18	5.56%	(15,849)
Treat & Disp Equip - Fully Accrued	(44,345)	-	-	(44,345)			FD
Treat & Disp Equip	(4,897,808)	(192,966)	13,348	(5,077,426)	18	5.56%	(282,305)
Plant Sewers	(328,117)	-	-	(328,117)	35	2.86%	(9,384)
Outfall Sewer Lines	(268,739)	-	-	(268,739)	30	3.33%	(8,949)
Other Plant & Misc Equip - Fully Accrued	(39,385)	-	-	(39,385)			FD
Other Plant and Misc Equip	(823,056)	-	-	(823,056)	18	5.56%	(45,762)
	(7,734,905)	(201,353)	13,348	(7,922,910)			(396,033)
Total CIAC - Plant in Service	(45,577,179)	(975,586)	93,380	(46,459,385)			(1,541,153)
Less: Per Books Amount							(1,505,569)
Total Adjustment to CIAC							(35,584)

ATTACHMENT 1
Audit Settlement Exhibit CAS-4

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Income Taxes
For the Test Year Ended April 30, 2010

After Accounting & Pro Forma Adjustments	
	\$ Wastewater Operations
Operating Revenues	5,827,349
Operating Expenses	4,570,081
Net Operating Income Before Taxes	1,257,268
Less: Annualized Interest Expense	55,887
Taxable Income - State	1,201,381
State Income Tax %	5.0%
State Income Taxes	60,069
Less: State Income Taxes Per Book	21,990
Adjustment to State Income Taxes	38,079
Taxable Income - Federal	1,141,312
Federal Income Taxes %	35.0%
Federal Income Taxes	399,459
Less: Federal Income Taxes Per Book	86,304
Adjustment to Federal Income Taxes	313,155
Total Adjustment to Income Taxes	351,234
After Applicant's Proposed Increase	
	\$ Wastewater Operations
Operating Revenues	6,490,464
Operating Expenses	4,581,699
Net Operating Income Before Taxes	1,908,765
Less: Annualized Interest Expense	55,887
Taxable Income - State	1,852,878
State Income Tax %	5.0%
State Income Taxes	92,644
Less: State Income Taxes As Adjusted	60,069
Adjustment to State Income Taxes	32,575
Taxable Income - Federal	1,760,234
Federal Income Taxes %	35.0%
Federal Income Taxes	616,082
Less: Federal Income Taxes As Adjusted	399,459
Adjustment to Federal Income Taxes	216,623
Total Adjustment to Income Taxes	249,198